
Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Agenda
March 14, 2005
2:30 p.m. – Room 113

University of California (6440)
California State University (6610)

- I. Overview of UC and CSU Budgets (Office of the Legislative Analyst)
- II. Student Enrollments
- III. Increased Medical Student Enrollments (UC Irvine's *PRIME-LC Program*)
- IV. Calculation of Per Student Marginal Cost of Instruction
- V. Cost-of Living (COLA) increases for UC and CSU
- VI. Student Fees
 - 1) Proposed fee levels
 - 2) Use of fee revenue by UC and CSU
 - 3) Update on set-aside for institutional financial aid
 - 4) Update on “excess unit fee” policy
- VII. Update on budget for Student Academic Preparation
- VIII. Update on UC Merced
- IX. Update on Institute for Labor Studies

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

I. Overview of Higher Education (UC and CSU) Budgets

Figure 1

Governor's 2005-06 UC/CSU Budget Proposal

(Dollars in Millions)

	2004-05	2005-06	Change	
			Amount	Percent
UC				
General Fund	\$2,708.8	\$2,806.3	\$97.5	3.6%
Fee revenue	1,800.0	1,949.9	149.9	8.3
Subtotals	(\$4,508.8)	(\$4,756.2)	(\$247.4)	(5.5%)
All other funds	\$14,162.5	\$14,637.3	\$474.9	3.4%
Totals	\$18,671.3	\$19,393.5	\$722.2	3.9%
CSU				
General Fund	\$2,496.7	\$2,607.2	\$110.5	4.4%
Fee revenue	1,111.3	1,212.5	101.2	9.1
Subtotals	(\$3,608.0)	(\$3,819.7)	(\$211.7)	(5.9%)
All other funds	\$2,222.1	\$2,197.5	-\$24.5	-1.1%
Totals	\$5,830.1	\$6,017.3	\$187.2	3.2%

(A) Governor's Compact with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) which calls for the Governor to provide the UC and CSU with a specified level of General Fund support as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. This compact mirrors past funding agreements ("compacts" or "partnerships") between former Governors Wilson and Davis and the university systems. The Governor's 2004-05 Budget provides funding for UC and CSU pursuant to this agreement.

Staff notes that this compact, like the *compacts* before it, is an agreement between Governor Schwarzenegger and the UC and CSU systems. The Legislature is not part of this funding agreement nor was it consulted when the agreement was being developed. The Office of the Legislative Analyst (LAO) expresses concerns that simply "rubberstamping" the compact would continue an unnerving trend of putting the state budget on "autopilot". Further, the LAO believes that various provisions of the compact as arbitrary, seemingly without connection, to the *Master Plan for Higher Education*.

As such, both staff and the LAO recommend that the subcommittee examine the provisions of the Governor's budget proposal with the same level of scrutiny applied to all aspects of the budget, regardless of whether or not the proposals constitute a *compact* between various parties.

Specifically, the compact contains the following provisions:

1. *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement.
2. *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11.
3. *General Support.* Beginning in fiscal year 2005-06 and 2006-07, Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11); the Governor will provide increases of 4 percent annually.
4. *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,000 FTES at CSU.
5. *Long-Term Funding Needs.* Beginning in 2008-09 through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
6. *Student Fees.*
 - a) *Undergraduate Fees.* In an effort to better stabilize fees after the sharp increases of the past of couple years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU will increase fees at rate of change in per capita personal income, with a maximum increase of 10 percent.
 - b) *Teacher Credentialing Fees.* Fees will increase by no more than 10 percent annually; an 8 percent increase in fees is proposed by both UC and CSU in 2005-06.
 - c) *Academic Graduate Student Fees.* Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors including the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.
 - d) *UC Professional School Fees.* UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2005-06 academic year, fees will be increased approximately 3 percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

- e) Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase with corresponding General Fund reductions as the state has done in recent “bad” budget years).
7. Accountability Measures. In exchange for the Governor’s funding commitment, the UC and CSU agree to the following:
- a) Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.
 - b) Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.
 - c) Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements as they relate to academic “majors” with community colleges. In 2005, UC agrees to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.
 - d) Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand summer session and off-campus offerings and student enrollments by reaching FTES levels equivalent to 40 percent of regular-term enrollments.
 - e) Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue the most effective academic outreach programs.
 - f) A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.
 - g) Public Service. UC and CSU agree to strengthen student community service programs.
 - h) Time to Degree. Both UC and CSU will maintain and improve, where possible, students’ persistence rates, graduate rates, and time-to-degree.
 - i) Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

II. Student Enrollment Growth. Pursuant to the compact, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. For CSU, enrollments are proposed to increase by approximately 8,000 FTES and \$50.8 million. At UC, this 2.5 percent increase equates to approximately 5,000 FTES and \$37.9 million. Of this amount, \$300,000 and 20 FTES are attributable to increased medical school enrollments at UC Irvine and \$7.5 million and 1,000 FTES are for the new students attending UC Merced. (Both the increase in medical school enrollments and UC Merced are discussed below.)

Enrollment Growth Projections:

As part of its *Analysis of the 2005-06 Budget Bill*, the LAO conducted its own analysis of enrollment growth projections and trends and determined that providing funding for enrollment growth of 2.5 percent was excessive. Instead, the LAO is recommending that the state only fund enrollment growth of 2.0 percent or 4,000 FTES at UC and 6,400 students at CSU. This equates to 2,600 FTES less than proposed by the Governor.

UC, CSU, and the Department of Finance contend that 2.5 percent enrollment growth is needed in order to continue admitting all eligible students (both first-time freshman and transfer students) and get the systems "back on track" after several years of managing enrollments downward.

The California Postsecondary Education Commission (CPEC), in its demographic projections, substantiates the Administration's proposed enrollment growth levels for UC at 2.5 percent, but finds that CSU could absorb additional enrollment growth up approximately 3.36 percent annually .

Staff recommends that, given the current fiscal condition of the state, the proposed \$88.7 million in funding for enrollment growth be placed on the "checklist" pending the Governor's May Revision.

In addition, the LAO cites a disconnect between the number of students funded and the actual level of enrollments. This confusion appears due, in part, to the budget reductions in recent years which led the systems to alter the number of students served in order to keep campus budgets balanced. Further, the budgeted levels of funding approved by the legislature for enrollment growth are estimates of the number of eligible students that will chose to enroll at either the UC or CSU. In any given year, students make choices which impact our estimates, resulting in a discrepancy between the "budgeted" and "actual" enrollment levels.

In order to help rectify the confusion over how many students the UC and CSU are funded to enroll, staff recommends that -- when the committee takes action on this issue -- it also adopt Budget Bill Language specifying the minimum number of full-time equivalent students (FTES) to be served by the UC and CSU in 2005-06.

OUTCOME:

III. Increased Medical Student Enrollments (PRIME-LC Program). The Governor's Budget provides an additional \$300,000 to increase enrollments in medical school programs. The *PRogram In Medical Education – for the Latino Community* (PRIME-LC) at the UC Irvine College of Medicine, focuses on Latino health needs including those of the migrant worker population. This initiative is the first of several that UC is developing to train physicians specifically to serve in underrepresented communities, whether they be geographic or demographic. Within the next seven or eight years, the UC hopes to continue growing their medical school enrollments to meet this goal.

With a 2004 grant from the California Endowment, the UC expanded -- by 8 FTES -- its class of medical students for the first time in more than 25 years. Until that point, the first year medical school class was limited to 622 FTES annually (spread across UC's 5 schools of medicine). UC is now requesting (and the Governor is proposing to provide) an additional \$300,000 in continue supporting these 8 new students and add an additional 12 students (for a total of 20 FTES). The funds would support the instruction of those 20 students.

Medical schools have a higher marginal cost rate because of the historically smaller student-to-faculty ratio (3.5-to-1). UC indicates that the marginal cost rate of instruction for its medical students hovers around \$50,000 per student, per year. Of that amount, student fees cover a little over half of the cost, leaving approximately \$22,500 per FTES to be paid for by the state. Since the standard marginal cost rate covers \$7,500, the Governor proposes to provide additional General Fund of \$15,000 per FTES to cover the full cost of instruction.

Staff recommends that the committee approve enrollment growth funding (\$300,000) associated with the PRIME-LC program.

OUTCOME:

IV. Calculation Marginal Cost of Instruction. Current practice has been to fund each additional FTES at a "marginal cost of instruction". This marginal cost rate is less than the "average" cost of instruction because it is designed to take into account the economies of scale of large university campuses. These rates are determined by a formula that has been in place since 1995, and are intended to encompass the cost of educating each additional student (additional faculty, teaching assistants, academic support, etc.). There is a separate funding rate for both UC and CSU students.

The current methodology was designed to provide a single amount per FTES to each of the segments sufficient to cover the range of instructional costs. For example, while it may cost more to educate a biology student and less to educate a literature student, the marginal cost rate is designed to coalesce costs across the disciplines into a single marginal cost calculation per segment. The methodology to determine the marginal cost rate was developed at the request of the Legislature in 1995 and has been in use since.

Future Review of Methodology. Until recently, the marginal cost formula has provided campuses with an amount reasonably comparable to their actual costs. But both the segments and the LAO are beginning to question whether or not the current methodology continues to meet the needs of the state and/or the universities. Specifically, the LAO contends that the marginal cost formula should include only those program costs that are directly related to increased enrollment and should be based on actual costs (particularly as it related to faculty and teaching assistant salaries). Further, staff notes that the Legislature has expressed its concerned about the availability of "high cost programs" such as nursing, engineering, and other applied sciences. While the 1995 methodology was originally intended to cover the range of academic programs, the last 10 years have brought changes in technology as well as changes to employer's expectations of graduates, especially in applied fields. As such, these changes may not be accounted for in the current marginal cost rate.

Staff recommends that the subcommittee adopt the following Supplemental Report Language directing the impacted parties to re-examine the methodology and report back to the Legislature.

"The Legislative Analyst's Office (LAO) shall convene the University of California, the California State University, and the Department of Finance to review the components of the per full-time equivalent students (FTES) marginal cost calculation. The LAO, in consultation with the working group members, shall report on the working group's findings and recommend any proposed modifications to the marginal cost calculation in its Analysis of the 2006-07 Budget Bill."

OUTCOME:

V. General Support Increases. Consistent with the Governor's compact, his budget provides additional General Fund support of \$147.2 million (\$76.1 million for UC and \$71.1 million for CSU) to support a three percent general support increase. It is the intent of both UC and CSU to use these funds to cover cost-of-living adjustments (COLA's), salary increases, and general price increases on goods and services.

The LAO has expressed concern over these increases because the augmentations are not tied to any inflationary index that tracks actual purchasing power.

Unlike K-14 education, which is slated to receive a statutorily-mandated COLA (which is funded in the Governor's Budget at 3.93 percent for 2005-06), the state is not legally obligated to fund a COLA for UC and CSU. As a result, the Governor and the Legislature have tended to appropriate a dollar figure that equates more to what the state treasury can afford in any given year and less to a specific index.

In its *Analysis of the 2005-06 Budget Bill*, the LAO finds that the level of the K-14 statutory COLA may actually end up closer to 4.10 percent than the 3.93 percent budgeted by the Governor. Staff notes that if the state provided General Fund increases for UC and CSU at the statutory COLA level of 4.10 percent, they would receive an additional \$104 million and \$97.2 million, respectively (\$54 million more than proposed by the Governor).

Staff recommends that funding for this issue be placed on the "checklist" and revisited pending the May Revision.

OUTCOME:

VI. Student Fees

(1) Proposed Fee Levels. In 2004-05, the Governor proposed his own long-term student fee policy which was aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal or otherwise obtaining Legislative "buy-in", the Governor instead chose to integrate these student fee "principles" into his compact with UC and CSU.

Pursuant to the compact, UC and CSU are increasing 2005-06 undergraduate student fees by 8 percent; academic graduate students will see fee increases of 10 percent; while UC professional school student fees will increase approximately 3 percent.

In the future, the Governor's compact calls for undergraduate student fees to begin increasing at the same rate as per capita personal income starting with the 2007-08 fiscal year and are not exceed 10 percent in any given year. Also beginning in 2007-08, graduate student fees are proposed to increase to a level equivalent to 150 percent of undergraduate fees.

Figure 2

Summary of Governor's Undergraduate and Graduate Fee Proposals

(Systemwide Charges for Full-Time Students^a)

	2004-05 Actual	2005-06 Proposed	Change	
			Amount	Percent
University of California				
Resident Charge				
Undergraduates	\$5,684	\$6,141	\$457	8%
Graduates	6,269	6,897	628	10
Nonresident Charge				
Undergraduates	\$22,640	\$23,961	\$1,321	6%
Graduates	21,208	21,858	650	3
California State University				
Resident Charge				
Undergraduates	\$2,334	\$2,520	\$186	8%
Teacher education students	2,706	2,922	216	8
Graduates	2,820	3,102	282	10
Nonresident Charge				
Undergraduates	\$12,504	\$12,690	\$186	1%
Graduates	12,990	13,272	282	2
a Reflects only systemwide charges. Does not include campus-based fees.				

^a Reflects only systemwide charges. Does not include campus-based fees.

Staff notes that, there is no definition of what constitutes "moderate", "gradual" or "predictable". After substantial fee increases during the past several years (ranging from 40 percent in 2002-03 to 15 percent in the current year) the committee will need to determine if the proposed increase of approximately 8 percent for undergraduates and 10 percent for graduate students meet the litmus test of being "moderate", "gradual" and "predictable".

Further, staff notes that *if* the Legislature is interested in making adjustments to the proposed fee levels, a fee increase of only 5 percent for undergraduates (3 percent less than proposed in the Governor's Budget) would cost the state - roughly - an additional \$45 million. These funds would be used to "buy out" the difference in the fee increase and reimburse the university systems the lost revenue. In contrast, a fee increase of 10 percent for undergraduate students (which is comparable to the increase proposed for graduate students) would produce an additional \$36 million in fee revenue. After reducing the revenue assumption for a 20 percent return to financial aid, the state could "offset" the UC and CSU General Fund appropriation and save roughly \$29 million.

Following is a recent history of fee levels at the UC and CSU:

	University of California Student Fees				California State University Student Fees			
	<u>Undergraduate</u>		<u>Graduate</u>		<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident
1994-95	\$4,111	\$11,810	\$4,585	\$12,284	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	4,139	11,838	4,635	12,334	1,584	8,964	1,584	8,964
1996-97	4,166	12,560	4,667	13,061	1,584	8,964	1,584	8,964
1997-98	4,212	13,196	4,722	13,706	1,584	8,964	1,584	8,964
1998-99	4,037	13,611	4,638	14,022	1,506	8,886	1,584	8,964
1999-00	3,903	14,077	4,578	14,442	1,428	8,808	1,506	8,886
2000-01	3,964	14,578	4,747	15,181	1,428	8,808	1,506	8,886
2001-02	3,859	14,933	4,914	15,808	1,428	8,808	1,506	8,886
2002-03	3,859	15,361	4,914	16,236	1,428	9,888	1,506	9,966
2002-03	4,017	16,396	5,017	16,393	1,573	10,033	1,734	10,194
<i>(fees increased mid-year)</i>								
2003-04	5,530	19,740	6,843	19,332	2,572	11,032	2,782	11,242
2004-05	6,312	23,268	7,928	22,867	2,916	13,086	3,402	13,572
2005-06	6,769	2,589	8,556	23,517	3,102	13,272	3,684	13,854

(2) Use of Student Fee Revenues. In keeping with his compact, the Governor does not propose "recapturing" the increased student fee revenue for the general benefit of the state by offsetting the General Fund appropriations of the UC and CSU to account for the additional funds derived by the fee increases.

The LAO raises concerns that segment's intended use of student fee revenues is not transparent to the legislature or the general public. Staff recommends that the committee ask the UC and CSU to report, at this hearing, on how the new student fee revenue (which is estimated to total approximately \$150 million for UC and \$101 million for CSU) will be expended. While the Governor's Budget does not explicitly account for the additional revenue derived from fee increases, both the UC Regents and the CSU Trustees have expenditure plans which illustrate how student fees, in combination with state General Fund, will be spent.

As an additional note, the Budget Bill appropriates student fee revenue to the CSU, since those revenues reside in the state treasury. However, UC retains student fee revenues locally on the individual campuses.

(3) Set-Aside for Institutional Financial Aid. Campus-based financial aid programs are established systemwide and administered by the individual UC and CSU campuses. Until recently (current year), the UC and CSU each had a policy to return one-third of the new revenue derived from student fee increases to campus-based financial aid in an effort to mitigate the impact of the fee increase on financially-needy students. As part of 2004-05 Budget, the Governor proposed and the Legislature approved, a reduction in the amount of funding returned to students for financial aid, from one-third to one-fifth (20 percent).

Staff recommends that the committee request UC and CSU to report to the subcommittee (at this hearing) on the expenditure of institutional aid funds and update the committee on how institutional aid programs have changed since the set-aside was reduced from 33.3 percent to 20 percent.

(4) Excess Unit Fee. As part of the Governor's 2004-05 Budget, the Administration proposed to establish a per-unit surcharge for undergraduate students at UC and CSU who enroll in considerably more courses than are required to obtain a baccalaureate degree. Specifically, the Administration proposed charging students the full cost of instruction for each credit unit they take beyond 110 percent of the units required to obtain a baccalaureate degree. For most programs, the LAO cites that the unit cap would need to be set at 198 quarter units and 132 semester units. The 2004-05 Governor's Budget initially assumed that the implementation of this policy will result in General Fund savings of \$9.3 million at UC and \$24.4 million at CSU. These savings were later revised to \$1.1 million at UC while the revenue estimates for CSU remained the same.

In spite of the objections raised by UC and CSU related to the implementation of this proposal, the Legislature reduced UC's budget by \$1.1 million and CSU's budget by \$24.4 million in the current year under the auspices of developing an "excess unit policy". However, staff notes that the Legislature never actually adopted statutory, Budget Bill, or supplemental reporting language either requiring the UC and CSU to establish an excess unit policy or stating the intent of the Legislature that such a policy be developed. In spite of clear guidance from the Legislature on this issue, both the UC and CSU are committed to implementing such a policy. Specifically, the UC Regents will be hearing a policy proposal at either their Spring or Summer Regent's meeting and the CSU is working within their Increased Graduation Initiative to improve student's time-to-degree and deter students from enrolling in excess units.

In its *Analysis of the 2005-06 Budget Bill*, the LAO suggests that the Legislature capture an additional \$25.5 million in General Fund from the UC and CSU (to account for additional student fee revenue derived from the continued implementation of the excess unit fee policy).

The UC and CSU remain concerned that the projected \$25.5 million in additional fee revenue will never materialize and staff shares their concern. Staff notes that if both UC and CSU were to develop an effective excess unit fee policy, then most students WILL NOT pay the higher fee. Instead they will graduate or drop out rather than enrolling in excess classes and paying the higher amount. As a result, when the revenues assumed from this policy fail to materialize, UC or CSU would instead have an unallocated reduction and an open “slot” which would be filled with another student. Given that the goal of an excess unit policy is to alter student behavior, it’s unclear why *any* General Fund savings would be associated with this policy.

Staff notes that this issue requires no action by the subcommittee; however, if the subcommittee wishes to impose an unallocated reduction on the UC or CSU, it should consider do so directly rather than under the auspices of an "excess unit fee" policy.

OUTCOME:

VII. Student Academic Preparation Programs. Under the Governor's Budget, UC would be required to reduce funding by \$17.3 million for *either* student academic outreach programs or student enrollment growth. Instead of characterizing the proposed reduction as "unallocated" in nature and allowing the UC to determine how best to implement the cut, the Administration instead chose to target programs that directly serve students. Absent any intervention by the Legislature, the present assumption is that UC intends to reduce funding for Student Academic Preparation Programs, since they are obligated under the *Master Plan for Higher Education* to provide a space for all eligible students.

For CSU, the Governor proposes to reduce its budget by \$7 million. Unlike the UC budget, which specifies the programs and services to be reduced, the Administration does not allocate the \$7 million reduction, leaving that decision to the CSU Board of Trustees. CSU has noted that it *does not* intend to reduce funding for student academic preparation programs and will instead implement an unallocated reduction across all campuses.

While not explicitly raised as an issue in its *Analysis of the 2005-06 Budget Bill*, the current funding level for student academic preparation programs was generally supported by the LAO. In lieu of going into detail on the status of Academic Preparation Programs, the LAO crafts an alternative budget proposal for both UC and CSU (which is based on 2% enrollment growth at a lower marginal cost rate, as discussed above). In both the UC and CSU version of the alternative budget, the LAO restores funding for Student Academic Preparation Programs (\$17.3 million for UC and \$7 million for CSU) to retain funding levels consistent with current year expenditures.

Staff recommends that the UC and CSU provide a brief oral update on the status of these programs and that funding to *backfill* the reductions contained in the Governor's Budget be placed on the "checklist" pending the May Revision.

OUTCOME:

VIII. UC Merced. The Governor's Budget continues to support opening the new UC Merced campus to students in the Fall of 2005. To meet this end, the Governor proposes an additional \$14 million (one-time) for start-up costs associated with the Merced campus, bringing the 2005-06 operational costs to \$24 million. These funds are used primarily to support a core staff of administrators and faculty, develop curriculum, and recruit new faculty; however, in 2005-06 (the first year of campus operations with students) over half of the \$24 million appropriated will be used to support direct instruction to students.

The Merced campus intends to open this coming fall with 1,000 FTES (or 1,036 "headcount" students). This number includes 600 freshman, 300 transfer students, and 100 graduate students. The Governor provides funding for these students at the standard "marginal cost rate", and includes these Merced-directed FTES under his proposal for 2.5 percent enrollment growth (5,000 total FTES systemwide). Additional funding for instruction --

assuming the campus will not be able to achieve any "economies of scale" in the foreseeable future -- is provided through the \$24 million in start-up costs appropriated to the UC specifically for Merced.

When the campus opens, it will offer six to eight undergraduate majors and five areas of graduate-level study. At present, the campus has a core staff of approximately 150 employees, including academicians, librarians, maintenance staff, and post-doctoral and graduate students. In addition, the construction of the student residence hall is expected to be completed later this spring and will house approximately 600 individuals.

Staff recommends that the committee "approve" funding, as budgeted, for support costs at UC Merced.

OUTCOME:

IX. Institute for Labor Studies (Update). For the third year in a row, the Governor's Budget deletes all funding (\$3.8 million) for the University's Institute of Labor Studies. As part of the final budget negotiations each year, the Legislature has successfully negotiated the restoration of funding for the Institute's operations.

Staff notes particular concern with the Administration's proposal to eliminate the Labor Studies Institute. This Institute is only one of many organized research units within the UC. Based on the Governor's Budget, other state-supported research activities would be held harmless, after several years of reductions. As such, it is unclear why the Labor Studies Institute has been singled out for elimination while the funding level for the others is proposed – without regard to the subject of their research – to remain constant.

Staff recommends that funding to restore the operations of the Institute for Labor Studies be placed on the "checklist", pending the May Revision.

OUTCOME:

Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

- 6440-001-0007. Support, University of California. Breast Cancer Research \$12,776,000
- 6440-001-0046. Support, University of California. Institute of Transportation Studies \$980,000
- 6440-001-0234. Support, University of California. Cigarette and Tobacco Products Surtax Fund, Research Account \$14,253,000
- 6440-001-0308. Support, University of California. Earthquake Risk Reduction Fund \$1,500,000
- 6440-001-0321. Support, University of California. Oil Spill Response Trust Fund \$1,300,000
- 6440-001-0890. Support, University of California. Federal GEAR UP Program \$5,000,000
- 6440-001-0945. Support, University of California. California Breast Cancer Research \$473,000
- 6440-001-3054. Support, University of California. Chapter 795, Statutes of 2002 \$1,752,000
- 6440-002-0001. Support, University of California Ongoing deferral of expenditures from June 30th to July 1st (\$55,000,000)
- 6440-005-0001. Support, University of California. Institutes for Science & Innovation \$4,750,000
- 6440-011-0042. Transfer by Controller from State Hwy. Acct.,
Earthquake Risk Reduction Fund of 1996 (\$1,000,000)
- 6440-490. Reappropriation, University of California.
- 6600-001-0001. Support, Hastings College of Law. \$8,363,000
- 6610-001-0890. Support, California State University. Federal Trust Fund \$39,789,000